

## Message Text

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ACTION EB-08

INFO OCT-01 ARA-06 EUR-12 ISO-00 AGRE-00 CEA-01 CIAE-00  
COME-00 DODE-00 FRB-03 H-01 INR-07 INT-05 L-03 LAB-04  
NSAE-00 NSC-05 PA-01 AID-05 SS-15 STR-04 ITC-01  
TRSE-00 USIA-06 PRS-01 SP-02 OMB-01 FEA-01 /093 W  
-----081202Z 070824 /17

R 042237Z MAR 77

FM AMEMBASSY SAN JOSE  
TO SECSTATE WASHDC 6635  
INFO AMEMBASSY GUATEMALA  
AMEMBASSY MANAGUA  
6;AMEMBASSY PANAMA 2992  
AMEMBASSY SAN SALVADOR  
AMEMBASSY TEGUCIGALPA  
AMEMBASSY LONDON

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GUATEMALA ALSO FOR ROCAP

E.O. 11652: N/A

TAGS: EPAP, ETRD, CS

SUBJECT: VIEWS OF TOP COSTA RICAN COFFEE OFFICIAL

1. SUMMARY. COSTA RICA EXPECTS TO BE HIT BY COFFEE RUST WITHIN A FEW MONTHS AND BY FALLING COFFEE PRICES WITHIN TWO YEARS, ACCORDING TO THE HEAD OF THE COFFEE OFFICE. THE COUNTRY IS READY FOR THE COFFEE RUST AND EXPECTS THAT MEASURES TO COMBAT IT WILL LEAD TO AN OVERALL INCREASE IN COFFEE PRODUCTION. THE COFFEE PRODUCERS, HOWEVER, ARE DOING LITTLE TO PREPARE FOR THE EXPECTED RETURN OF COFFEE PRICES TO MORE NORMAL LEVELS. THEY ARE SPENDING THEIR EXCESS COFFEE EARNINGS ON LUXURY GOODS RATHER THAN SAVING OR INVESTING IN THE GOVERNMENT'S COFFEE BONDS. END SUMMARY.

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2. IN A DISCUSSION MARCH 2, ALVARO JIMENEZ CASTRO, DIRECTOR OF THE COFFEE OFFICE OF COSTA RICA, GAVE HIS CURRENT VIEWS ON COFFEE MATTERS. AS IN THE PAST, HE EXPRESSED THE VIEW THAT CURRENT HIGH PRICES ARE A TEMPORARY PHENOMENON THAT WILL NOT ENDURE AND THAT PRODUCERS MUST PREPARE THEMSELVES FOR THE DAY IN THE NOT TOO DISTANT FUTURE (HE ESTIMATED TWO YEARS) WHEN

INCREASING PRODUCTION, STIMULATED BY HIGH PRICES, WILL CAUSE PRICES TO FALL TO MORE NORMAL LEVELS. HE DID NOT EXPECT CURRENT HIGH PRICES TO LEAD TO MUCH INCREASE IN COFFEE ACREAGE IN COSTA RICA BECAUSE OF THE DIFFICULTY OF GETTING ENOUGH WORKERS TO HARVEST EVEN THE CURRENT PRODUCTION.

3. JIMENEZ ALSO DESCRIBED COSTA RICA'S APPROACH TO THE PROBLEM OF COFFEE RUST, A BLIGHT WHICH IS CERTAIN TO SPREAD TO COSTA RICA FROM NICARAGUA, PROBABLY DURING THE NEXT RAINY SEASON. HE SAID THAT COSTA RICA HAS TESTED TWO VARIETIES OF COFFEE THAT ARE STRONGLY RESISTANT TO RUST. DESPITE THE FACT THAT ONE OF THESE IS 60 PERCENT MORE PRODUCTIVE THAN THE TRADITIONAL COSTA RICAN COFFEE PLANT, AND ONE IS 100 PERCENT MORE PRODUCTIVE, THE COFFEE OFFICE WILL NOT PROMOTE PLANTING OF RESISTANT VARIETIES.

4. COSTA RICA'S APPROACH TO THE COFFEE RUST PROBLEM WILL BE BASED ON ENCOURAGING PLANTING OF HIGHLY PRODUCTIVE, NON-RESISTANT VARIETIES, WHICH ARE SO MUCH MORE PRODUCTIVE THAN THE RESISTANT VARIETIES THAT GROWERS CAN EASILY AFFORD THE REQUIRED PERIODIC SPRAYING AGAINST COFFEE RUST. SPRAYING WILL BE NECESSARY ABOUT 9 TIMES PER YEAR AT A COST OF ABOUT \$100 PER HECTARE, BUT THIS WILL NOT REPRESENT MUCH OF AN INCREASE IN PRODUCTION COSTS FOR COSTA RICA'S HIGHLY TECHNOLOGICAL COFFEE INDUSTRY (WHICH HAS THE WORLD'S HIGHEST COFFEE YIELD), BECAUSE THE AVERAGE COFFEE PRODUCER ALREADY SPRAYS LIMITED OFFICIAL USE

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4 - 5 TIMES PER YEAR WITH FUNGICIDES TO CONTROL COFFEE BLIGHTS THAT ALREADY EXIST IN THE COUNTRY. SOME 50 PERCENT OF THE COFFEE FINCAS, WHICH PRODUCE SOME TWO-THIRDS OF COSTA RICA'S COFFEE, USE SPRAYS REGULARLY.

5. THE EFFECT OF COFFEE RUST ON THE OTHER 50 PERCENT OF COFFEE GROWERS MAY BE SUCH AS TO BRING ABOUT AN OVERALL INCREASE IN COFFEE PRODUCTION. THESE TRADITIONAL PRODUCERS WHO DO NOT FOLLOW MODERN CULTIVATION PRACTICES WILL BE FORCED TO TAKE SOME ACTION TO PROTECT THEMSELVES AGAINST THE DREADED COFFEE RUST. IF THEY BEGIN TO USE SPRAYS, AS THE GOVERNMENT RECOMMENDS, THEY WILL NOT ONLY PROTECT THEIR PLANTS AGAINST RUST BUT ALSO AGAINST A WHOLE VARIETY OF DOMESTIC FUNGI WHICH HAVE BEEN REDUCING THEIR PRODUCTION. ALTERNATIVELY, THEY MAY DECIDE TO AVOID THE EXTRA WORK OF SPRAYING BY PLANTING RESISTANT VARIETIES. EITHER WAY, PRODUCTION SHOULD INCREASE.

6. SOME OF THE MARGINAL COFFEE FINCAS, THOSE IN LOW

LYING AREAS WHERE HEAT AND HUMIDITY WOULD MAKE RUST TOO DIFFICULT AND COSTLY TO CONTROL, WILL HAVE TO BE CONVERTED TO OTHER CROPS, JIMENEZ SAID.

7. IN RESPONSE TO A QUESTION FROM EMBOFF ABOUT WHAT HE EXPECTS COFFEE PRODUCERS TO DO WITH THEIR WINDFALL PROFITS, JIMENEZ EXPRESSED SKEPTICISM THAT THE GROWERS WILL BUY THE GOVERNMENT'S COFFEE BONDS. THEY HAVE REDUCED THEIR DEBTS AND ARE NOW SPENDING THE MONEY ON PRODUCTS THAT THEY DO NOT NORMALLY BUY SUCH AS AUTOMOBILES (ESPECIALLY JEEP-TYPE VEHICLES WHICH PAY LOWER TAXES) AND HOUSEHOLD APPLIANCES, HE BELIEVES.

8. JIMENEZ ALSO MENTIONED AN INCREASINGLY SERIOUS PROBLEM OF CONTRABAND, IN WHICH COFFEE PROVIDED TO THE LOCAL MARKET IN COSTA RICA AT A GOVERNMENT-FIXED PRICE OF ABOUT 60 CENTS A POUND IS ILLEGALLY EXPORTED TO NICARAGUA AND LIMITED OFFICIAL USE

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PANAMA WHERE THE LOCAL PRICE OF COFFEE IS CLOSE TO THE WORLD MARKET PRICE.

DOUBLING THE LOCAL PRICE OF COFFEE WOULD HURT THE COSTA RICAN CONSUMER, BUT WOULD STILL NOT ELIMINATE THE PROFIT IN THE CONTRABAND TRADE.

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## Message Attributes

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